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SUBJECT: Meeting in Manila on ASEAN+3 Crisis Fund

SENSITIVE BUT UNCLASSIFIED

A) Manila 2340, B) Manila 2370

¶1. (SBU) Summary: A November 20 special meeting of ASEAN+3 Finance and Central Bank officials in Manila discussed a regional funding facility to help regional economies weather the global financial crisis. The meeting achieved consensus to expand the Chiang Mai Initiative rather than create a new facility and to include liquidity assistance outside of balance of payments difficulties. Although launch of the expanded facility is not likely before mid-year 2009, ASEAN+3 is determined to put such a facility into place, with or without the support of international financial institutions. Our contacts noted that the Chinese are particularly supportive of the proposal. End Summary.

¶2. (U) The Philippine government hosted a meeting of ASEAN+3 (i.e., the 10 ASEAN countries plus China, Japan, South Korea) officials in Manila on November 20 to continue discussions on the creation of a fund to assist regional economies to weather the global financial crisis. Philippine President Arroyo and members of her economic team hoped to move forward with operational details for the proposed facility, building on Thai and Philippine proposals made during a special meeting of ASEAN+3 leaders on the sidelines of the Asia-Europe Meeting in Beijing in October 2008.

¶3. (SBU) In a meeting with econoffs on November 25, senior Philippine Department of Finance officials said the meeting in Manila was attended mainly by ASEAN+3 assistant secretaries/ministers and assistant central bank governors and provided an opportunity for further brainstorming, but did little in terms of operational details. The group did agree, however, to propose "multilateralization" of the decade-old Chiang Mai Initiative (CMI, an \$84 billion network of ASEAN+3 bilateral currency-swap agreements launched in 1998 to assist economies experiencing balance of payments problems during the Asian financial crisis). The group proposed, rather than creating a separate facility altogether, to expand the Chiang Mai Initiative's scope and resources to provide liquidity support beyond balance of payments difficulties.

¶4. (U) According to Finance officials, the meeting in Manila produced "general" recommendations to pursue the establishment of a regional facility in response to the global financial crisis; to multilateralize and expand the Chiang Mai Initiative; and to officially create a technical working group to study proposals and craft recommendations to get the regional facility up and running. No consensus was reached on critical operational matters, such as the level of funding; a formula for determining respective commitments; conditions for access; financing terms; the role of international financial institutions; the scope of assistance; establishment of a surveillance and monitoring system; and

logistical and administrative support. Officials expect the ASEAN+3 Finance and Central Bank Deputies Meeting in Japan on November 27-28 to adopt these general recommendations as a deliverable for the mid-December ASEAN+3 Leaders Summit in Chiang Mai.

¶5. (SBU) Finance officials expect the spade work on the regional fund's mechanics to begin in earnest only after the ASEAN+3 heads of state jointly approve the proposal for the creation of a technical working group at the mid-December Leaders Summit. They consider a first-quarter 2009 launch ambitious and unlikely. Depending on how quickly consensus can be reached on complicated operational and legal issues, they estimate the facility may be up and running in mid-2009, at the earliest.

¶6. (SBU) ASEAN+3 nations are determined to establish the regional facility with or without the support of international financial institutions, according to our contacts. The impetus for a "self-help" plan partly reflects concerns that international financial institutions may not have adequate resources and partly the sentiment that they were not particularly flexible and supportive during the Asian financial crisis (a sentiment especially strong among the Thais, who will chair ASEAN in 2009). Philippine officials noted the desire among ASEAN+3 economies for a facility that could provide "comprehensive, coordinated, and timely assistance" and described China as "highly supportive" of the proposed regional fund. They expect China to take a major role in promoting this initiative during its upcoming term as ASEAN+3 co-chair.

Kenney